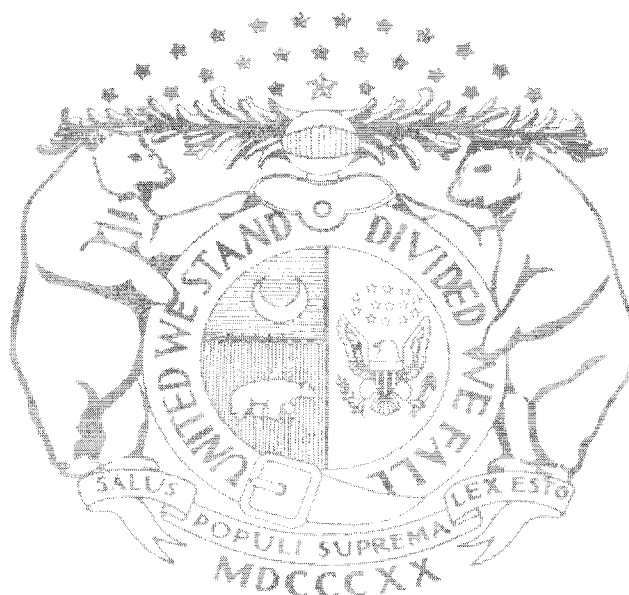


REPORT OF
FINANCIAL EXAMINATION

St. Louis Area Insurance Trust

AS OF
JUNE 30, 2005



STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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April 17, 2006
St. Louis, Missouri

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Dear Mr. Finke:

In accordance with your financial examination warrant, a financial examination has been made of the records, affairs and financial condition of

St. Louis Area Insurance Trust

also referred to as "SLAIT" or the "Trust." The examination was conducted at the office of the Trust's service company at 1001 Highlands Plaza Drive West, Suite 500, St. Louis, Missouri 63110, telephone number (314) 444-1937. This examination began on February 27, 2006, and concluded April 17, 2006.

SCOPE OF EXAMINATION

Period Covered

The prior financial examination of St. Louis Area Insurance Trust was as of June 30, 2000 and was conducted by an examiner from the state of Missouri.

The current financial examination covers the period from July 1, 2000, through June 30, 2005, and was conducted by an examiner from the state of Missouri.

This examination also included material transactions and/or events occurring after June 30, 2005.

Procedures

This examination was conducted using the guidelines set forth by applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri.

The workpapers of the Trust's independent auditors were made available to the examiner. Standard examination procedures were modified as deemed appropriate under the circumstances.

Comments Previous Examination

Listed below are the comments and recommendations taken from the prior Examination Report as of June 30, 2000. The responses or actions taken by the Trust are also described below.

1. Comment: Solvency Protection

It is recommended that the Trust continue its commitment to the thorough review of claim reserves via external actuarial analysis and internal assessment to ensure the stabilization of members' fund equity.

Trust Response:

The Trust will continue this commitment by having an annual actuarial valuation performed for the purpose of estimating expected loss reserves for prior policy years and for calculating loss rates for the coming policy year. In addition, these estimates will be reviewed a second time as part of the financial auditing process. Finally, at every meeting of the board of directors the financial statement of the Trust will be reviewed and substantial time will be spent reviewing claims which have been reserved for \$25,000 or more.

Current Findings:

The Trust follows the claims review procedures noted above. However its one-year development from June 2004 to June 2005 reflected adverse development of \$782,197; and the development subsequent to the exam period from June 2005 through January 2006 reflected additional adverse development of \$324,668. This is adverse development of \$1.1 million over the prior year and a half. The Trust must continue its commitment to the thorough review of claim reserves via external actuarial analysis and internal assessment to ensure the stabilization of members' fund equity.

2. Comment: Conflict of Interest

Although not required by statute, it would be a prudent business practice for the officers and directors of the Trust to complete conflict of interest disclosure statements on an annual basis.

Trust Response:

The board of directors of the St. Louis Area Insurance Trust does not believe that there are any conflicts of interest to be disclosed; however they are willing to complete such disclosure statements and ask if the state of Missouri has a preferred form that that form be provided to the Trust. It should also be noted that because of their positions with their various communities, most Board members are required to file conflict of interest statements with the Missouri Ethics Commission on an annual basis.

Current Findings:

The Trust has not implemented a procedure of requiring its officers and directors to complete annual conflict of interest statements. However the conflict of interest statements filed annually

by the officers and directors with the Missouri Ethics Commission contain a satisfactory level of disclosures. The Trust should initiate a procedure of acquiring copies of these statements on an annual basis.

3. Comment: Service Providers

It is recommended that SLAIT amend its contracts with BCA, Inc. in order to clearly state the amount of the discretionary settlement authority.

Trust Response:

The agreement with BCA, Inc. relative to the discretionary settlement authority of \$25,000 will be more clearly defined by the trust.

Current Findings:

The Trust has not amended its contracts with BCA, Inc. to define the discretionary settlement authority given to settle claims. SLAIT should amend its contracts with BCA, Inc. in order to clearly state the amount of the discretionary authority given to BCA to settle claims.

4. Comment: Cash

It is recommended that the Trust institute procedures to keep bank balances below FDIC limits of \$100,000 per account.

It is recommended that the Trust update its bank signature cards to notify the bank of check signing limitations established by the board of directors in SLAIT's internal procedure "98-1 Check Signing Procedures."

Trust Response:

Efforts will be made by the Trust to keep bank balances below FDIC limits of \$100,000 per account. However, it should be noted that the Trust does have \$2,000,000 in pledged securities assigned to it by Southwest Bank and held by the Bank of America. The Trust has already updated its bank signature cards to indicate when more than one signature is required on any check.

Current Findings:

The trust now maintains pledged securities to secure all bank balances that exceed \$100,000. However its current bank signature cards do not contain provisions that notify the bank of the check signing limitations established by the board of directors in Internal Procedure "98-1 Check Signing Procedures." The Trust should update its bank signature cards to reflect the limitations established by this procedure.

5. Comment: U.S. Government Securities

It is recommended that the Trust comply with its investment guidelines regarding the duration of investments in all future transactions.

Trust Response:

The Trust will either discontinue making the longer investments or will amend its guidelines to provide for the investments being made. The Trust wishes it to be known that all investments made are in vehicles within the guidelines for governmental investments as provided for by Article IV, Section 15 of the Missouri constitution. As of March 31, 2001, the longest maturity was 41 months.

Current Findings:

All of the investments held by the Trust as of June 30, 2005, were in compliance with the duration requirements established by its investment guidelines.

HISTORY

General

St. Louis Area Insurance Trust was formed in August of 1998 through a merger of two separate trusts, formerly known as the Property and Casualty Trust of St. Louis, Inc. (PACT) and the St. Louis Area Insurance Trust (predecessor trust).

PACT was formed on February 10, 1987, under the provisions of Chapter 537 RSMo (Risk Management for Political Subdivisions) for the purpose of providing a voluntary self-insured liability program for political subdivisions of Missouri.

St. Louis Area Insurance Trust (predecessor trust) was formed in August of 1986 under the provisions of Chapter 287 RSMo (Workers Compensation Law) for the purposes of providing a self-insured workers' compensation program for political subdivisions of Missouri.

Capital Stock

The Trust is a not-for-profit entity and has no capital stock.

Dividends

SLAIT maintains the members' fund balance account by policy year. The board of directors has the authority to determine how to distribute any remaining balance when all claims for a policy year are closed.

The board of directors declared and paid surplus distributions of the following amounts during the exam period:

<u>Year</u>	<u>Fund</u>	<u>Policy Year</u>	<u>Amount</u>	<u>Total</u>
2000	Liability	1997-98	\$ 255,156	
	Liability	1998-99	\$ 133,217	
	Workers Compensation	1992-93	\$ 308,000	
	Workers Compensation	1996-97	\$ 200,000	
	Workers Compensation	1997-98	\$ 200,000	\$ 1,096,373
2001	Workers Compensation	1993-94	\$ 362,587	
	Workers Compensation	1994-95	\$ 200,000	
	Workers Compensation	1995-96	\$ 200,000	
	Workers Compensation	1996-97	\$ 200,000	
	Workers Compensation	1997-98	\$ 200,000	\$ 1,162,587
2002	Liability	1989-90	\$ 422,470	
	Liability	1990-91	\$ 83,868	
	Liability	1991-92	\$ (46,760)	
	Workers Compensation	1994-95	\$ 307,351	
	Workers Compensation	1996-97	\$ 200,000	
	Workers Compensation	1997-98	\$ 200,000	\$ 1,166,929
2003	Liability	1992-93	\$ (40,370)	
	Liability	1993-94	\$ 69,806	
	Liability	1994-95	\$ 96,744	
	Workers Compensation	1995-96	\$ 200,000	
	Workers Compensation	1996-97	\$ 724,302	\$ 1,050,482
2004	Liability	1997-98	\$ 347,282	
	Workers Compensation	1997-98	\$ 687,260	\$ 1,034,542

The board of directors approved a motion to pay the following surplus distribution at its September 2005 meeting:

<u>Year</u>	<u>Fund</u>	<u>Policy Year</u>	<u>Amount</u>	<u>Total</u>
2005	Liability	1995-96	\$ (291,259)	
	Liability	1996-97	\$ 500,266	
	Liability	1998-99	\$ 236,805	
	Workers Compensation	1995-96	\$ 300,000	
	Workers Compensation	1998-99	\$ 263,195	\$ 1,009,007

Management

The Board of Directors consists of twelve members as authorized by the Bylaws. At least three of the Directors must be representatives of the smallest half of the Trust's members (based on payroll). Members serving as of June 30, 2005, were as follows:

<u>Name</u>	<u>Business Affiliation</u>	<u>Term Expires</u>
Thomas Aiken	Assistant City Administrator City of Ballwin	6/30/2006
Marty Corcoran	City Manager City of Maplewood	6/30/2006
Michael Herring	City Administrator City of Chesterfield	6/30/2006
Thomas Moton	Assistant City Manager City of University City	6/30/2006
Michael Pounds	City Administrator City of Glendale	6/30/2007
Chris Seemayer	City Administrator City of Brentwood	6/30/2007
David Watson	Director of Finance City of Maryland Heights	6/30/2007
Janet Watson	Assistant City Manager City of Webster Groves	6/30/2007
Edwin Carlstrom	City Manager City of Hazelwood	6/30/2008
Douglas Harms	City Administrator City of Des Peres	6/30/2008
A. J. Krieger	City Manager City of Ferguson	6/30/2008
Mark Perkins	City Administrator City of Creve Coeur	6/30/2008

Officers serving as of June 30, 2005, were as follows:

<u>Name</u>	<u>Office</u>
Douglas Harms	Chairman of the Board
Michael Herring	Vice Chairman of the Board
David Watson	Secretary / Treasurer

Conflict of Interest

Although the Trust does not require its officers and directors to provide conflict of interest disclosure statements, because of their positions with their various communities each is required to file statements annually with the Missouri Ethics Commission. Chapter 537 RSMo (Risk Management for Public Entities) does not require completion of conflict statements; however it would be a prudent business practice for the Trust to obtain copies of the statements filed by its board members with the Missouri Ethics Commission on an annual basis.

Corporate Records

A review was made of the Articles of Association and the Bylaws. In addition, the minutes of the board of directors were reviewed for the period under examination. The minutes appeared to properly document and approve applicable corporate events and transactions. The board of directors reviewed the prior Examination Report of SLAIT on June 7, 2001.

Acquisitions, Mergers and Major Corporate Events

The Trust amended its Bylaws during the examination period by expanding the membership eligibility requirements. Previously members of the Trust were required to be political subdivisions of the state of Missouri with full time professional city management. The amendment expanded the eligibility requirements to entities created pursuant to Section 70.220 RSMo for the purpose of providing a common service mutually provided by a municipality or public subdivision of the state of Missouri. The board of directors approved this amendment on June 5, 2003. One new member that was created pursuant to Section 70.220; Municipal Partners for Inclusive Recreation, joined the Trust during the examination period.

Surplus Debentures

The Association has not issued any surplus debentures.

SERVICE PROVIDERS

General

The Trust has entered into contracts with service providers to provide various insurance, accounting and administrative services. A description of the services provided and fees paid to each provider are described below.

The Daniel and Henry Co. (D&H)

D&H is a Missouri licensed third party administrator. It is a full-service insurance agency that operates on the basis of shared resources. D&H's individual brokers share common facilities, overhead and expenses. Stephens and Associates, Inc. is the broker within D&H responsible for managing SLAIT.

D&H provides the following brokerage, administrative and loss control services for SLAIT under two Administrative Services contracts, one for the provision of services pertaining to workers compensation coverage, and the other for the provision of services pertaining to liability coverage:

Brokerage Services

These services include updating underwriting information, developing marketing strategy, submitting requests for reinsurance premium quotes to excess markets and insurance policy review.

Administrative Services

These services include attending board of directors meetings and keeping minutes of those meetings, preparation of loss runs, various clerical duties for legal, accounting and loss control services, invoicing of members for premium assessments, and other miscellaneous services.

Loss Control Services

D&H provides SLAIT with a comprehensive loss control program. This program includes facilities inspection, loss control audits, safety committee assistance, and the presentation of various educational seminars.

Fees

The Trust paid D&H \$175,000 during each year of the examination period. Because assessments increased each year of the examination period, this total represented percentages of assessments that declined each year, from 3.62% for the 2000-2001 policy year, to 3.27% for the 2004-2005 policy year.

BCA, Inc.

BCA, Inc. (BCA) is a Missouri licensed third party administrator. SLAIT and BCA are party to two contracts that stipulate that BCA shall perform various claims adjudication services for the Trust including maintaining claim files, performing investigations of reported claims, recommending reserves for each claim, settling all qualifying claims (within a discretionary settlement authority limit), and providing all necessary reports to excess reinsurers. One of the contracts pertains to settling workers compensation claims, the second pertains to liability claims.

Both contracts between SLAIT and BCA allow BCA to settle qualifying claims up to a discretionary settlement authority limit without obtaining approval from SLAIT. The prior examination report disclosed that the amount of the discretionary settlement authority limit was not defined in the contracts, but that the companies had a verbal understanding that the limit is \$25,000. St. Louis Area Insurance Trust was advised to amend its contracts with BCA, Inc. in order to clearly state the amount of the discretionary settlement authority. The Trust did not amend the contracts during the examination period. We direct St. Louis Area Insurance Trust to make such an amendment.

The fees paid by the Trust to BCA, Inc. increased each year of the exam period as the volume of claims administered increased. The totals paid ranged from \$136,732 for the 2000-2001 policy year, to \$166,199 for the 2004-2005 policy year.

Phillip E. Pfeiffer, CPA

The Trust contracts with Phillip Pfeiffer, Certified Public Accountant, to compile quarterly financial statements and other supplemental reports. The Trust paid \$13,285 for these services for the 2004-2005 policy year.

FIDELITY BOND AND OTHER INSURANCE

The Trust is a named insured on a commercial crime policy that provides \$500,000 coverage for employee theft. The Trust's servicing agents are also included as employees insured under this policy. This coverage complies with the suggested minimum amount of fidelity insurance according to the National Association of Insurance Commissioners' guidelines. The Trust also has an Errors and Omissions policy that provides coverage of \$1,000,000 with a \$25,000 deductible.

EMPLOYEE BENEFITS

The Trust does not have any employees. The board of directors are reimbursed for actual expenses incurred for attendance at board meetings only. All other services are provided through contractual agreements with outside parties.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

SLAIT is a self-insured trust licensed by the Missouri Department of Insurance under Chapter 537 RSMo (Risk Management for Public Entities). Membership of the Trust is limited to municipalities located in the state of Missouri, or to entities created pursuant to Section 70.220 RSMo for the purpose of providing a common service that is provided by a municipality or public subdivision. Members of the Trust must be professionally managed (non-elected administrators) and cannot own public utilities. As of June 30, 2005, the Trust was funded by twenty-five participating members.

Participating Members

As of June 30, 2005, the following twenty-four cities were members of the Trust:

Ballwin	Ellisville	Maplewood
Brentwood	Eureka	Maryland Heights
Bridgeton	Fenton	Olivette
Chesterfield	Ferguson	Richmond Heights
Clayton	Frontenac	St. John
Crestwood	Glendale	Town and Country
Creve Coeur	Hazelwood	University City
Des Peres	Manchester	Webster Groves

As of June 30, 2005, the following entity that was created pursuant to Section 70.220 RSMo was also a member of the Trust:

Municipal Partners For Inclusive Recreation

Policy Forms & Underwriting

SLAIT offers auto and general liability and workers' compensation coverage to its members. Underwriting procedures are performed on an annual basis as part of the renewal process. In addition, SLAIT contracts with The Daniel & Henry, Co. to provide routine on-site safety and maintenance inspections of all facilities. The coverages provided by SLAIT are summarized below:

Liability Coverage

General and police professional liability coverage is provided in the Trust's public entity liability insurance policy that currently provides members with protection limits of \$2,000,000 on a claims made basis. The Trust also provides an auto liability policy that provides \$2,000,000 coverage on an occurrence basis. In addition, the auto liability policy provides uninsured motorist's coverage of \$100,000. Twenty-four of the twenty-five members participated in this coverage at June 30, 2005, (the City of Eureka does not participate).

Workers' Compensation Coverage

Workers' Compensation coverage is provided according to Missouri Statutes as prescribed by Chapter 287 RSMo (Workers' Compensation Law). SLAIT also provides coverage for employer's liability up to \$1,000,000. All twenty-five members of the Trust participated in this coverage at June 30, 2005.

Advertising & Sales Materials

The Trust does not actively market its insurance program to outside parties.

Treatment of Policyholders

The Trust is not required under Chapter 537 RSMo to maintain a log of complaints submitted to the Association by policyholders. The Trust does appear, however, to address all concerns of its members.

REINSURANCE

Assumed

None

Ceded

The Trust has excess reinsurance coverage for both workers compensation and liability coverages. Coverage for the policy years from 1995 to 2001 was provided by The United States Fidelity and Guaranty Company; subsequent policy years were reinsured by Discover Property and Casualty Insurance Company. The coverages provided and the Trust's retentions for the 2004-2005 policy year were as follows:

Liability Coverage

The coverage provided by the Trust is written on an occurrence basis for auto liability and a claims made basis for general liability. The limits and excess coverage regarding the liability coverage is as follows:

<u>Coverage</u>	<u>Limit</u>	<u>Retention</u>
General Liability	\$2,000,000 each occurrence	\$500,000
Personal & Advertising Injury	\$2,000,000 each person	\$500,000
Employee Benefit Liability	\$2,000,000 each claim	\$500,000
Business Auto Liability	\$2,000,000 each accident	\$500,000

Workers' Compensation

<u>Coverage</u>	<u>Limit</u>	<u>Retention</u>
Workers' Compensation	Statutory Limit	\$600,000
Employers Liability	\$1,000,000	\$600,000

The Trust also maintains a self-funded reserve of \$1,000,000 to pay for excess workers compensation losses. These funds are held in an escrow account and are restricted for this use. The funds cannot be removed without joint signature from a qualified person from the Trust and the Director of the Division of Workers' Compensation. Because of an oversight by the Trust's custodian the Trust did not hold the full \$1,000,000 as restricted securities at June 30, 2005. The custodian mistakenly sold a \$250,000 bond without approval from the Missouri Division of Workers Compensation. This error was remedied on August 8, 2005, when \$300,000 of Treasury Notes was acquired. A reserve for the full \$1,000,000 was properly included in the Trust's June 30, 2005 financial statement.

ACCOUNTS AND RECORDS

The Trust's financial statements are compiled on a quarterly basis by Phillip E. Pfeiffer, Certified Public Accountant. Audited financial statements are prepared annually by Conner Ash, P.C. Reserves and related actuarial items reported in the audited financial statements are reviewed by the actuarial department of PricewaterhouseCoopers, LLP.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Trust as of June 30, 2005, and the results of operations for the fiscal year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Trust and noted in the workpapers for each individual financial statement item.

ASSETS

	Ledger Assets	Assets Not Admitted	Net Admitted Assets
Cash	47,298		47,298
Money market account	3,475,459		3,475,459
U.S. Government securities	7,447,013		7,447,013
Accrued interest receivable	54,421		54,421
Reinsurance recoverable on unpaid losses	<u>97,633</u>		<u>97,633</u>
Total Assets	<u>\$ 11,121,824</u>	<u>\$ -</u>	<u>\$ 11,121,824</u>

LIABILITIES, SPECIAL FUNDS AND MEMBERS' FUND BALANCES

Liabilities		
Accounts payable and accrued expenses		\$ 80,625
Unearned members' contributions		181,904
Claims and claim adjustment expense reserves	Note 1	<u>5,710,880</u>
Total Liabilities		\$ 5,973,409
Special Funds and Member's Fund Balance		
Members' fund balance		\$ 4,473,083
Special funds - aggregate excess reinsurance reserve		1,000,000
Examination changes		<u>(324,668)</u>
Total Special Funds and Member's Fund Balance		5,148,415
Total Liabilities Special Funds and Member's Fund Balance		<u>\$ 11,121,824</u>

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
MEMBERS' FUND BALANCE**

Revenues	
Member assessments	\$ 5,348,154
Change in fair value of investments	(33,484)
Interest income	227,393
Reimbursed deductibles	<u>48,130</u>
Total Revenues	5,590,193
Expenses	
Incurred claims and claims adjustment expenses	4,449,388
Premiums for excess reinsurance coverage	819,823
Insurance services	341,199
Workers' compensation taxes	137,130
General and administrative	<u>75,379</u>
Total Expenses	5,822,919
Excess of Revenues Over (Under) Expenses	<u><u>\$ (232,726)</u></u>
Members' Fund Balance, Beginning of Year	\$ 5,740,351
Excess of revenues over (under) expenses	(232,726)
Contribution refund	(1,034,542)
Examination Changes	<u>(324,668)</u>
Members' Fund Balance, End of Year	<u><u>\$ 4,148,415</u></u>

NOTES TO FINANCIAL STATEMENTS

Note 1	Claims and claims adjustment expense reserves	\$5,710,880
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Although its fiscal year end is on June 30, SLAIT uses an actuarial review that is performed at or near the previous calendar year end to obtain the amounts that it reports for its claims and claims adjustment expense reserves. The loss analysis used to project the loss reserve of \$5,386,212 that was reported as of June 30, 2005 was based on loss data as of December 31, 2004. The loss analysis performed as of January 31, 2006 reflected a negative loss development of \$324,668 on this liability. A calendar year end review is necessary for rate setting purposes and this review has disclosed that in its most recent years SLAIT has experienced increasingly negative loss development. This adverse development should be accounted for in its fiscal year-end financial statements. The Trust should obtain an actuarial update using fiscal year-end loss numbers for the purpose of generating fiscal year-end reserves in addition to the annual actuarial report that is currently used for both the financial statement and rate setting purposes.

EXAMINATION CHANGES

Special Funds and Member's Fund Balance Per Trust

Member's fund balance	\$ 4,473,083
Special funds - aggregate excess reinsurance reserve	<u>1,000,000</u>
Total Special Funds and Members' Fund Balance Per Trust	\$ 5,473,083

Decrease
In
Members
Fund
Balance

Liabilities:

Claims and claims adjustment expense reserves	Note 1 (324,668)
Change in Special Funds and Members' Fund Balance	(324,668)

Special Funds and Member's Fund Balance Per Examination

Member's fund balance	\$ 4,148,415
Special funds - aggregate excess reinsurance reserve	<u>1,000,000</u>
Total Special Funds and Members' Fund Balance Per Examination	<u>\$ 5,148,415</u>

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Comments Previous Examination – Solvency Protection

Page 2

The Trust should continue its commitment to the thorough review of claim reserves via external actuarial analysis and internal assessment to ensure the stabilization of members' fund equity.

Comments Previous Examination – Conflict of Interest

Page 2

The Trust should initiate a procedure of acquiring copies of the conflict of interest statements filed annually by the officers and directors with the Missouri Ethics Commission.

Comments Previous Examination – Service Providers

Page 3

The Trust must amend its contracts with BCA, Inc. in order to clearly state the amount of the discretionary authority given to BCA to settle claims.

Comments Previous Examination – Cash

Page 3

The Trust should update its bank signature cards to notify the bank of the check signing limitations established by the board of directors in the Trust's internal procedure "98-1 Check Signing Procedures."

Claims and claims adjustment expense reserves

Page 16

The Trust should obtain an actuarial update using year-end loss numbers for the purpose of generating year-end reserves in addition to the annual actuarial report that is currently used for both the financial statement and rate setting purposes.

SUBSEQUENT EVENTS

One member withdrew from the Trust and the one new member was added subsequent to June 30, 2005. Both were entities that were formed pursuant to Section 70.220 RSMo. Municipal Partners withdrew effective December 31, 2005, and East Central Dispatch Center joined, effective October 25, 2005. East Central Dispatch was accepted for General and Auto Liability only.

The Board of Directors approved a motion to pay a surplus distribution in the amount of \$1,009,007 at its September 2005 meeting.

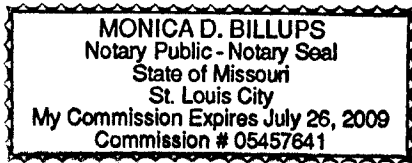
ACKNOWLEDGMENT


The assistance and cooperation extended by the officers and the employees of St. Louis Area Insurance Trust during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

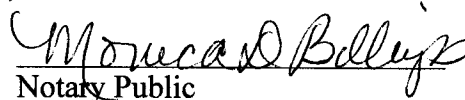
I, Richard J. Hayes, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Trust, or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs, or of such conclusions and recommendations as the examiner found were reasonably warranted by the facts.




Richard J. Hayes, CFE, FLMI
Examiner-in-Charge
Missouri Department of Insurance

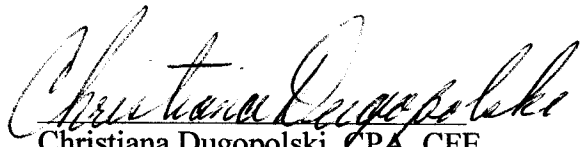
Sworn to and subscribed before me this 3 day of April 2006.
My commission expires:

July 26, 2009


Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri has been confirmed.


Christiana Dugopolski, CPA, CFE
Audit Manager
Missouri Department of Insurance

THE DANIEL AND HENRY CO.

INSURANCE AND RISK MANAGEMENT

RECEIVED
JUN 12 2006
DIVISION
FINANCIAL REGULATION

June 7, 2006

Mr. Kirk Schmidt, CFE, CPA
Chief Financial Examiner
State of Missouri
Department of Insurance
P. O. Box 690
Jefferson City, MO 65102-0690

Re: Examination Report of St. Louis Area Insurance Trust (SLAIT) for the period ending
June 30, 2005

Dear Mr. Schmidt:

The purpose of this letter is to provide a written response to the above referenced Report. Please include this response with the Report as a public document.

Item 1 – Solvency Protection

The report recommends, “the Trust should continue its commitment to the thorough review of claims reserves via external actuarial analysis and internal assessment to ensure the stabilization of members’ fund equity.” The Trust will continue this commitment by having an annual actuarial valuation performed for the purpose of estimating expected loss reserves for prior policy years and for calculating loss rates for the coming policy year. In addition, these estimates will be reviewed a second time as part of the financial auditing process. Finally, at every meeting of the Board of Directors the Financial Statement of the Trust will be reviewed and substantial time will be spent reviewing liability claims which have been reserved for \$35,000 or more, and workers’ compensation claims which have been reserved for \$75,000 or more.

Item 2 – Conflict of Interest

The Report recommends that the Trust acquire, “copies of the conflict of interest statements filed annually by its officers and directors with the Missouri Ethics Commission.” It should be noted that not all Board Members are required to file such statements, but the Trust will institute a procedure to acquire copies of the statements of Board Members who make such a filing.

Item 3 – Service Providers

The Report states that SLAIT, “must amend its contracts with BCA, Inc. in order to clearly state the amount of the discretionary authority given to BCA to settle claims.” The agreement with BCA, Inc. relative to the discretionary settlement authority of \$25,000 will be more clearly defined by the Trust, in its contracts with BCA, Inc.

Item 4 – Cash

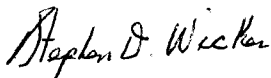
The Report recommends that the Trust, “update its bank signature cards to notify the bank of the check signing limitations established by the Board of Directors in procedure 98-1 Check Signing Procedures.” The Trust will update its bank signature cards and indicate the required number of signatures by check amount.

Item 5 – Claims and Claims Adjustment Expense Reserves

The Report recommends obtaining, “an actuarial update using year-end loss numbers for the purpose of generating year-end reserves in addition to the annual actuarial report that is currently used for both the financial statement and rate setting purposes.” The primary reasoning behind this recommendation is negative loss development of approximately \$325,000 that occurred between 12/31/04 and 1/31/06 and increasingly negative loss development that the Trust has experienced in its most recent years. Since a second actuarial report would cost in the range of \$15,000, alternatives to such an update will be explored. It should be noted that the Board of Directors reviews the Financial Statement at each quarterly Board Meeting and is made aware of reductions in the IBNR/Loss Development Factor, an indicator of worse than expected loss development. It should also be noted that when claims develop better than expected, the financial condition of the Trust is better than shown in the Financial Statement. The Board of Directors is also kept aware of this type of loss development.

If you have any questions or need any additional information, please feel free to contact me at wickers@danielandhenry.com or 314-444-1937. Thank you for the opportunity to respond to the Report.

Yours truly,



Stephen D. Wicker
SLAIT Administrator

SDW/jv